

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**



# **KINCARDINE OFFSHORE WINDFARM LIMITED**

## **COMPANY INFORMATION**

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### **Directors**

Mr A MacAskill  
Lord N R Stephen  
Mr J A Fernandez Garcia  
Mr J C Gonzalez Wiedmaier  
Mr A Perez Alonso  
Mr J Altolaguirre

### **Company number**

SC475345

### **Registered office**

c/o CMS Cameron McKenna Nabarro Olswang LLP  
4<sup>th</sup> Floor  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EN

### **Independent auditor**

Deloitte LLP  
Statutory Auditor  
Union Plaza  
1 Union Wynd  
Aberdeen, United Kingdom  
AB10 1SL

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# KINCARDINE OFFSHORE WINDFARM LIMITED

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# KINCARDINE OFFSHORE WINDFARM LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2021

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The directors present their report and the audited financial statements of Kincardine Offshore Windfarm Limited (the "Company") for the year ended 31 December 2021. In accordance with section 414B (b) of the Companies Act 2006, the directors are taking advantage of the small companies exemption to not prepare a strategic report.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

#### Principal activity

The principal activity of the Company is the generation and sale of renewable electricity. The Company owns and operates a floating offshore wind farm located off the coast of Aberdeen, Scotland. The name of the project is Kincardine Offshore Wind Farm. The commercial operations of the wind farm started on 27 September 2018 on its first production of electricity. The wind farm was fully commissioned on 11 September 2021. Since this commercial operation date until 31 December 2021, the windfarm generated 45,818 MWh. This generation can be considered an acceptable generation for the initial operation period.

On 30 December 2021, the turbine KIN-03 experienced a technical issue which required repair works executed in 2022.

#### Going concern

The Company has recorded a loss before tax of £21,713,446 for the year ended 31 December 2021 (2020: loss before tax of £5,429,360) with net current assets of £5,757,855 (2020: net current liabilities of £42,660,312) and net liabilities of £24,143,730 (2020: £10,091,497).

Dragados S.A. has confirmed its continuing financial support to the Company for a period of at least 12 months from the date of approval of these financial statements. The Company will address the maturity of the third party loan, which becomes due during the Going Concern period.

The directors have also assessed the impact of the current uncertainties arising from COVID-19 on the business, focusing specifically on the ongoing operation and cash flows of the Company. The COVID-19 pandemic has resulted in a significant general economic slowdown with substantial government fiscal intervention in an effort to stabilise conditions, nevertheless the Company is currently operating broadly as normal.

The directors, having considered the available resources and the forecast funding required through the forthcoming 12 months, are satisfied that the Company has adequate financial resources to continue to operate throughout the going concern period. Accordingly, the financial statements are prepared on a going concern basis.

#### Directors of the Company

The directors who each served throughout the year and up to the date of this report are as follows:

Mr A MacAskill  
Lord N R Stephen  
Mr J A Fernandez Garcia  
Mr J C Gonzalez Wiedmaier  
Mr A Perez Alonso  
Mr J Altolaquirre

#### Results and dividends

The results for the year are set out on page 8.

No ordinary dividends were paid (2020: £nil). The directors do not recommend payment of a final dividend.

#### Research and development

The Company incurred £5,659,444 of capitalised development costs during the year (2020: £2,739,035).

#### Climate change (Risk and Opportunities)

The global offshore wind market is growing rapidly and is poised to play a central role in future energy systems as a way to fight the climate change. As a clean energy source, wind turbines don't produce harmful gas emissions that can cause health and environmental issues, therefore the potential policies to fight the climate change can only benefit offshore wind companies.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### Subsequent events

In July 2022, turbine KIN-02 experienced a technical issue. The directors expect this unit will resume operations in Q4 2022.

#### Future developments

The entity in the coming period expects to continue operations at the Kincardine Offshore Windfarm and increasing production in the coming year.

#### Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that the directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, or other events and conditions, on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Disclosure of information to the auditors

We, the directors of the Company who held office at the date of approval of these Financial Statements as set out above, each confirm, so far as we are aware, that:

- there is no relevant audit information of which the Company's auditors are unaware; and
- we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The report of the directors has been prepared taking advantage of the small companies' exemption of section 415A of the Companies Act 2006. The Company has taken the small companies' exemption in section 414B of the Companies Act 2006 in relation to the strategic report preparation.

**KINCARDINE OFFSHORE WINDFARM LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

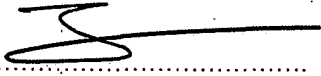
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**Independent auditors**

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in absence of an Annual General Meeting.

Approved and signed by:



Mr J Altolaguirre  
**Director**  
23rd September 2022

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KINCARDINE OFFSHORE WINDFARM LIMITED**

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## ***Report on the audit of the financial statements***

### ***Opinion***

In our opinion the financial statements of Kincardine Offshore Windfarm Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31/12/2021 and of its loss for the year then ended;
- have been prepared in accordance with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Conclusions relating to going concern***

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF KINCARDINE OFFSHORE WINDFARM LIMITED**

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#### ***Other information***

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### ***Responsibilities of directors***

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBERS OF KINCARDINE OFFSHORE WINDFARM LIMITED**

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#### *Extent to which the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF KINCARDINE OFFSHORE WINDFARM LIMITED**

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### *Report on other legal and regulatory requirements*

#### *Opinions on other matters prescribed by the Companies Act 2006*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

#### *Matters on which we are required to report by exception*

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

#### *Use of our report*

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*L Cowie*

Lyn Cowie (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Aberdeen, United Kingdom  
23rd September 2022

# KINCARDINE OFFSHORE WINDFARM LIMITED

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Revenue	3	19,220,819	885,658
Cost of sales		(35,253,910)	(5,340,465)
<b>Gross loss</b>		<b>(16,033,091)</b>	<b>(4,454,807)</b>
Administrative expenses		(2,157,962)	(494,503)
<b>Operating loss</b>	4	<b>(18,191,053)</b>	<b>(4,949,310)</b>
Finance expenses	6	(3,522,393)	(480,050)
<b>Loss before taxation</b>		<b>(21,713,446)</b>	<b>(5,429,360)</b>
Income tax credit	7	7,661,213	-
<b>Loss and total comprehensive expense for the year</b>		<b>(14,052,233)</b>	<b>(5,429,360)</b>

This income statement has been prepared on the basis that all operations are continuing.

There are no other gains or losses in the current year or in the comparative year other than those shown above, hence a separate statement of other comprehensive income is not presented.

The notes on pages 12 to 40 form part of these financial statements.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## STATEMENT OF FINANCIAL POSITION

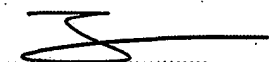
AS AT 31 DECEMBER 2021

Assets	Notes	31 December 2021 £	31 December 2020 £
<b>Non-current assets</b>			
Property, plant and equipment	8	372,775,156	340,730,432
Intangible assets	9	20,872,113	15,976,955
Right-of-use assets	10	318,184	333,101
Deferred taxation	11	6,566,424	-
		<u>400,531,877</u>	<u>357,040,488</u>
<b>Current assets</b>			
Trade and other receivables	12	13,998,905	5,879,632
Cash and cash equivalents	13	6,103,409	4,062,113
		<u>20,102,314</u>	<u>9,941,745</u>
<b>Total assets</b>		<u>420,634,191</u>	<u>366,982,233</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	20	100	100
Retained deficit	21	(24,143,830)	(10,091,597)
<b>Total equity</b>		<u>(24,143,730)</u>	<u>(10,091,497)</u>
<b>Non-current liabilities</b>			
Loans and borrowings	14	426,044,137	324,133,292
Lease liability	10	328,070	338,381
Decommissioning provision	19	4,061,255	-
		<u>430,433,462</u>	<u>324,471,673</u>
<b>Current liabilities</b>			
Trade and other payables	16	1,389,607	51,900,451
Remedial works provision	19	12,954,852	-
Loans and borrowings	14	-	701,606
		<u>14,344,459</u>	<u>52,602,057</u>
<b>Total liabilities</b>		<u>444,777,921</u>	<u>377,073,730</u>
<b>Total equity and liabilities</b>		<u>420,634,191</u>	<u>366,982,233</u>

The notes on pages 12 to 40 form part of these financial statements.

The financial statements were approved and authorised for issue on 23rd September 2022

Signed



Mr J Altolaguirre

Director

Company Registration No. SC475345

# KINCARDINE OFFSHORE WINDFARM LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £	Retained deficit £	Total £
Balance at 1 January 2020	100	(4,662,237)	(4,662,137)
<i>Loss and total comprehensive expense for the year</i>	-	(5,429,360)	(5,429,360)
Balance at 31 December 2020	100	(10,091,597)	(10,091,497)
Balance at 1 January 2021	100	(10,091,597)	(10,091,497)
<i>Loss and total comprehensive expense for the year</i>	-	(14,052,233)	(14,052,233)
Balance at 31 December 2021	100	(24,143,830)	(24,143,730)

The notes on pages 12 to 40 form part of these financial statements.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Loss for the year after tax		(14,052,233)	(5,429,360)
<b>Adjustments for:</b>			
Income tax credit	7	(7,661,213)	-
Depreciation and impairment of property, plant and equipment	8	18,675,657	2,741,104
Amortisation of intangible assets	9	764,286	739,985
Depreciation of right-of-use assets	10	14,917	14,917
Finance expenses	6	3,522,393	480,050
<b>Changes in:</b>			
(Increase)/decrease in trade and other receivables excluding Corporation tax	12	(7,024,484)	1,217,705
Increase in provisions	19	12,954,852	-
(Decrease)/increase in trade and other payables	16	(50,510,844)	51,601,072
<b>Cash (used in)/generated from operations</b>		<u>(43,316,669)</u>	<u>51,365,473</u>
<b>Cash flows from operating activities</b>			
Cash (used in)/generated from operations		(43,316,669)	51,365,473
Income taxes paid		-	-
<b>Net cash (outflow)/inflow from operating activities</b>		<u>(43,316,669)</u>	<u>51,365,473</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(41,181,280)	(173,989,525)
Development expenditure		<u>(5,426,590)</u>	<u>(2,387,619)</u>
<b>Net cash used in investing activities</b>		<u>(46,607,870)</u>	<u>(176,377,144)</u>
<b>Financing activities</b>			
Proceeds from bank and other loans	15	100,000,000	360,133,291
Debt issue costs	15	(159,862)	(686,562)
Loan repayment	15	-	(228,044,057)
Interest paid	15	(7,850,403)	(5,005,675)
Reduction in lease liabilities	10	<u>(23,900)</u>	<u>(23,900)</u>
<b>Net cash from financing activities</b>		<u>91,965,835</u>	<u>126,373,097</u>
<b>Net increase in cash and cash equivalents</b>		<u>2,041,296</u>	<u>1,361,426</u>
Cash and cash equivalents at beginning of the year		<u>4,062,113</u>	<u>2,700,687</u>
Cash and cash equivalents at end of the year	13	<u><u>6,103,409</u></u>	<u><u>4,062,113</u></u>

The notes on pages 12 to 40 form part of this financial statements.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies

##### Company information

Kincardine Offshore Windfarm Limited (the "Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006, domiciled and registered in Scotland. The registered number is SC475345 and the registered office is c/o CMS Cameron McKenna Nabarro Olswang LLP, 4<sup>th</sup> Floor, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.

The principal activity of the Company is the production and sale of electricity. The Company operates an offshore wind farm located outside Aberdeen, Scotland. The name of the project is Kincardine Offshore Wind Farm. The commercial operations of the Company started on 27 September 2018 on its first production of electricity. Construction was completed in September 2021.

Cobra Wind International Ltd, a related party during the period, was the Engineering, Procurement and Construction (EPC) and the Operations and Maintenance (O&M) contractor.

##### 1.1 Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. They were authorised for issue on the date set out on page 9 and the Statement of Financial Position was signed by Mr J Altolaguirre..

The financial statements have been prepared on the historical cost basis except for loans held at amortised cost. The principal accounting policies adopted are set out below.

The financial statements are presented in the Company's functional currency, the British Pound (GBP) with amounts rounded to the nearest £. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the financial statements.

Judgements and estimates made by the directors in the application of accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

##### 1.2 Going concern

The Company has recorded a loss before tax of £21,713,446 for the year ended 31 December 2021 (2020: loss before tax of £5,429,360) with net current assets of £5,757,855 (2020: net current liabilities of £42,660,312) and net liabilities of £24,143,730 (2020: £10,091,497).

Dragados S.A. has confirmed its continuing financial support to the Company for a period of at least 12 months from the date of approval of these financial statements. The Company will address the maturity of the third party loan, which becomes due during the Going Concern period.

The directors have also assessed the impact of the current uncertainties arising from COVID-19 on the business, focusing specifically on the ongoing operation and cash flows of the company. The COVID-19 pandemic has resulted in a significant general economic slowdown with substantial government fiscal intervention in an effort to stabilise conditions, nevertheless the Company is currently operating broadly as normal.

The directors, having considered the available resources and the forecast funding required through the forthcoming 12 months, are satisfied that the Company has adequate financial resources to continue to operate throughout the going concern period. Accordingly, the financial statements are prepared on a going concern basis.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**1 Accounting policies (continued)**

**1.3 Revenue**

All revenue arises in the UK and arises from the sale of electricity. Revenue is recognised as the electricity is provided, all transferred at a point in time.

Market sale revenue is recognised when the electrical output (MWh) generated by the wind turbine generators installed in the windfarm is delivered to the grid connection point in accordance with the provisions of the Power Purchase Agreement signed with the Company's client. Each unit of electricity delivered to the grid is recorded through certified meters and is billed under the rates applicable within the relevant customer contract.

ROC revenue is recognised when the eligible renewable electricity generated by the windfarm is delivered to the grid connection point. The Company, as an accredited renewable generating station, receives from the Office of Gas and Electricity Markets 3.5 certificates per MWh of renewable electricity delivered. The Company pursuant to its Power Purchase Agreement transfers, on a monthly basis, the ROCs to its client in exchange of the applicable buy-out price per ROC.

**1.4 Property, plant and equipment**

Property, plant and equipment is initially measured at cost, which includes all costs necessary to bring the asset to working condition for its intended use. Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are also added to cost. Property, plant and equipment are subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on a straight-line basis at the following annual rates:

Plant and equipment	4% - 10%
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Depreciation commences when the asset is brought into use and, as such, no depreciation is charged against assets under construction.

Repair and maintenance costs are recognised in the income statement as they are incurred. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Non-financial assets are considered for impairment at each reporting date in accordance with note 1.8 outlined below.

**1.5 Intangible assets other than goodwill**

The company does not incur research expenditure. Development expenditure is capitalised only if the expenditure can be reliably measured, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and use or sell the asset. Borrowing costs directly relating to development expenditure is capitalised. Otherwise, it is recognised in the income statement as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their useful lives and is recognised within administrative expenses in the income statement. The estimated useful lives for capitalised development costs are 25 years. Amortisation is charged from the point at which the asset being developed starts to generate revenue. The first unit of the project was completed in September 2018 and amortisation on the development expenditure related to this asset was charged from this point.



# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies (continued)

##### 1.5 Intangible assets other than goodwill (continued)

On the commercialisation of developments, the Company transfers any operational prototypes or similar assets to property, plant and equipment.

##### 1.6 Financial instruments

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

##### *Financial assets*

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has only financial assets measured at amortised cost. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### *Financial assets – Business model assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

##### *Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**1 Accounting policies (continued)**

**1.6 Financial instruments (continued)**

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement.

**Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Basic financial liabilities, including trade and other payables and bank loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments, discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

**1.7 Equity Instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**1.8 Impairment**

**Non-derivative financial assets**

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**1 Accounting policies (continued)**

**1.8 Impairment (continued)**

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

*Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

*Non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**1.9 Taxation**

The tax expense represents the current and deferred tax.

Current tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**1 Accounting policies (continued)**

**1.9 Taxation (continued)**

The carrying amounts of deferred tax assets and any unrecognised deferred tax assets are reviewed at each reporting end date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered or recognised to the extent it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

**1.10 Foreign currencies**

Transactions in foreign currencies are translated into the Company's functional currency at the foreign currency exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the foreign currency exchange rate ruling at the reporting date. Movements in the exchange rate between initial recognition and the reporting date are disclosed in the income statement as unrealised foreign exchange gains or losses. The foreign exchange gain or loss on the settlement of transactions, assets and liabilities is disclosed in the income statement as realised foreign exchange gains or losses.

**1.11 Finance income and expense**

Finance income and expense comprise interest receivable and payable using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are capitalised as part of the cost of that asset. Finance income comprises of interest receivable on funds invested.

Foreign currency gains and losses are reported on a net basis. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

**1.12 Leases**

The Company assesses whether a contract is, or contains, a lease at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies (continued)

##### 1.12 Leases (Continued)

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability and lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' accounting policy. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Administrative expenses' in the income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components; and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

##### 1.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at hand and deposits with maturities of three months or less.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 1 Accounting policies (continued)

##### 1.14 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Standard	IASB effective date (for periods commencing on or after)
• Initial application of IFRS 17 and IFRS 9: Comparative Information	1 January 2023
• Amendments to IFRS 16 'Leases: Covid-19-Related Rent Concessions'	1 April 2021
• Amendment to deferred tax related to assets and liabilities arising from a Single Transaction; IFRS 1, IAS 12	1 January 2023
• Amendments to IFRS 3 'Business Combinations'; IAS 16 'Property, Plant and Equipment' and IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	1 January 2022
• Amendments to IAS 37; Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020 Cycle	1 January 2022
• Amendments to IAS 1 'Presentation of Financial Statements: Classifications of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	1 January 2023
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17'	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure of Accounting Policies'	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	1 January 2023

##### 1.15 Decommissioning costs

In accordance with the terms of the licence agreement where the Company has an ownership interest, the licence holder has to remove the wind farm at the end of its useful life.

Upon initial recognition of a removal liability, the Company calculates and records the net present value related to future decommissioning. This removal liability is viewed to be a part of the total cost of the relevant property, plant and equipment and depreciated accordingly. The change in the time value (net present value) of the liability is charged as a finance cost (accretion) and increases the future liability related to decommissioning. Any change in the best estimate related to expenditures associated with decommissioning liabilities are accounted for prospectively. The discount rate used when calculating the net present value of the decommissioning liability is calculated based on a risk-free interest rate.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**2 Critical accounting estimates and judgements**

In the application of the Company's accounting policies, the directors are required to make judgements about the application of accounting policies and estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments and accounting estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

**Critical judgements**

*Classification of expenditure*

Accounting judgment is required in determining whether expenditure relating to plant and equipment increases and enhances the economic benefits to be received from the asset (and therefore capitalised), or if it is maintenance expenditure and should be expensed. The Company has processes and controls to evaluate the classification of such expenditure. These processes and controls include ensuring that where an item is determined to be capital in nature, the remaining net book value of any parts being replaced are disposed of and written off. Additional borrowing costs of £5,718,968 were capitalised during the year (2020: £5,611,638).

**Key sources of estimation uncertainty**

*Carrying value and depreciation of property, plant and equipment*

Indicators of impairment in respect of the carrying value of plant and equipment are assessed annually, including consideration of recoverable amount compared to carrying value. Depreciation on identified assets is determined at varying rates between 4% - 10% annually on a straight-line basis, with no depreciation charge on assets until they are brought into use. The Company continually assesses the expected useful life of the identified assets and the financing in place in relation to the construction of the assets to ensure that the depreciation rates applied reflect the useful life of the assets. Changes in the carrying value due to impairment could result in material changes to the financial statements. Total carrying value of property, plant and equipment amounted to £372,775,156 (2020: £340,730,432). Total depreciation charged for the year amounted to £8,104,851 (2020: £2,741,104). Total impairment charges identified in the year amounted to £10,570,806 (2020: £Nil).

*Carrying value and amortisation of development costs*

Indicators of impairment in respect of the carrying value of development costs are assessed annually, including consideration of recoverable amount compared to carrying value. No impairment indicators have been identified at 31 December 2021. Amortisation is determined at 4% annually on a straight-line basis, with no charge on assets until they are brought into use. The Company continually assesses the expected useful life of the identified assets and the financing in place to ensure that the amortisation rate applied reflects the useful life of the assets. Changes in the carrying value due to impairment could result in material changes to the financial statements. Total carrying value of development costs amounted to £20,872,113 (2020: £15,976,955). Total amortisation charged for the year amounted to £764,286 (2020: £739,985).

*Decommissioning provision*

The company will incur decommissioning costs at the end of the operating life of its offshore windfarm. In order to determine the amount to provide, management makes assumptions regarding the expected quantum and timing of payments as well as inflation and discount rates to be applied. In addition to these assumptions, other future factors, such as changes in the legislative environment or the emergence of the new technologies may have an impact on future cash payments.

As of 31 December 2021, the carrying amount of the decommissioning provision was £4,061,255 (2020: £nil).

**KINCARDINE OFFSHORE WINDFARM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**2 Critical accounting estimates and judgements (continued)**

**Key sources of estimation uncertainty (continued)**

*Deferred tax asset*

In accordance with the requirements of IAS 12 Income Taxes, the directors have recognised a deferred tax asset of £6,566,424 with regard to deductible temporary differences and unused tax losses to the extent that they consider it to be probable (i.e. more likely than not) that taxable profit will be available in the future against which the deductible temporary differences and unused tax losses can be utilised. The directors have based their assessment on the performance of the wind farm.

**3 Revenue**

All revenue arises in the UK and arises from the sale of electricity. The company's policy for recognising revenue is outlined at note 1.3.

Revenue reported in the year is as follows:

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Market sale revenue	8,236,748	37,506
ROC revenue	10,984,071	848,152
	<u>19,220,819</u>	<u>885,658</u>

**4 Expenses**

Operating profit/(loss) for the year has been arrived at after charging:

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Depreciation of property, plant and equipment (Note 8)	8,104,851	2,741,104
Impairment of property, plant and equipment (Note 8)	10,570,806	-
Exceptional remedial works (Note 19)	12,954,852	-
Amortisation of intangible assets (Note 9)	764,286	739,985
Depreciation of right-of-use assets (Note 10)	14,917	14,917

Fees payable to the company's auditor and associates:

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Audit of the financial statements of the company	<u>40,350</u>	<u>40,350</u>



**KINCARDINE OFFSHORE WINDFARM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**5 Employees**

There were no employees during the year, apart from the directors. The average number of directors during the year was 6 (2020: 6).

Remuneration of £108,000 (2020: £324,000) for the services of two directors were levied via other companies in which those directors hold an interest (refer to note 23 for further details). The highest paid director received £72,000 (2020: £180,000). The other directors received no emoluments for services to this company.

**6 Net finance expense**

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
<b>Finance expense</b>		
Interest payable on loans from fellow group undertakings	259,877	31,665
Interest on bank overdrafts and loans	3,240,659	433,678
Interest expense on lease liabilities	13,589	14,707
Unwinding of discount on provisions	8,268	-
	<u>3,522,393</u>	<u>480,050</u>

Additional interest charges of £5,718,968 were capitalised during the year (2020: £5,611,638). The effective capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 86.5% (2020 - 89.9%).

**7 Income tax expense**

	<b>Continuing operations</b>	
	Year ended 31 December 2021 £	Year ended 31 December 2020 £
<b>Current tax</b>		
Adjustments in respect of prior periods	<u>(1,094,789)</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<u>(6,566,424)</u>	<u>-</u>
Total tax credit	<u>(7,661,213)</u>	<u>-</u>

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**7 Income tax expense (continued)**

The (credit)/charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
Loss before taxation	(21,713,446)	(5,429,360)
Expected tax charge/(credit) based on a corporation tax rate of 19.00% (2020 – 19.00%)	(4,125,555)	(1,031,578)
Effect of expenses not deductible in determining taxable profit	-	1,169,082
Remeasurement of deferred tax for changes in tax rates	(1,575,933)	57,099
Adjustments in respect of prior periods	(1,094,789)	-
Fixed asset differences	(5,200)	520,810
Movement in deferred tax asset not recognised	(859,736)	1,160,080
Timing differences not recognised in the computation	-	(1,875,493)
	<u>(7,661,213)</u>	<u>-</u>

A change in the future UK Corporation tax rate to 25% with effect from 1 April 2023 was announced in the March 2021 budget and substantively enacted on 24 May 2021. This change will have a consequential effect on the Company's future tax charge in the UK and as the 25% tax rate was substantively enacted prior to the reporting date, any deferred tax expected to unwind after 1 April 2023 has been calculated at 25% as opposed to the current tax rate of 19%.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**8 Property, plant and equipment**

	<b>Plant and equipment</b>	<b>Assets under construction</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
At 1 January 2020	16,798,204	151,133,262	167,931,466
Additions	-	179,249,746	179,249,746
At 31 December 2020	16,798,204	330,383,008	347,181,212
At 1 January 2021	16,798,204	330,383,008	347,181,212
Additions	-	50,720,381	50,720,381
Transfer between classes	381,103,389	(381,103,389)	-
At 31 December 2021	397,901,593	-	397,901,593
<b>Accumulated depreciation</b>			
At 1 January 2020	3,709,676	-	3,709,676
Charge for the year	2,847,495	-	2,847,495
Transfer of charge to intangible assets (note 9)	(106,391)	-	(106,391)
At 31 December 2020	6,450,780	-	6,450,780
At 1 January 2021	6,450,780	-	6,450,780
Change for the year	8,104,851	-	8,104,851
Impairment charge	10,570,806	-	10,570,806
At 31 December 2021	25,126,437	-	25,126,437
<b>Carrying amount</b>			
At 31 December 2021	372,775,156	-	372,775,156
At 31 December 2020	10,347,424	330,383,008	340,730,432

Included in the cost of plant and equipment are capitalised borrowing costs of £15,409,338 (2020: £9,923,224).

The impairment charge recognised in the current year follows an assessment over the recoverable amount of a 2MW turbine which has been removed from site and was not operational at the reporting date.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**9 Intangible assets**

	<b>Development costs £</b>
<b>Cost</b>	
At 1 January 2020	14,478,234
Additions	2,739,035
At 31 December 2020	<u>17,217,269</u>
At 1 January 2021	17,217,269
Additions	5,659,444
At 31 December 2021	<u>22,876,713</u>
<b>Accumulated amortisation</b>	
At 1 January 2020	500,329
Charge for the year	633,594
Transfer of charge from tangible assets (note 8)	106,391
At 31 December 2020	<u>1,240,314</u>
At 1 January 2021	1,240,314
Charge for the year	764,286
At 31 December 2021	<u>2,004,600</u>
<b>Carrying amount</b>	
At 31 December 2021	<u>20,872,113</u>
At 31 December 2020	<u>15,976,955</u>

Included in development costs are capitalised borrowing costs of £1,226,650 (2020: £993,796).

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**10 Leases**

***Right-of-use assets***

	<b>Land and facilities £</b>	<b>Total £</b>
<b>Cost</b>		
At 1 January 2020 and 31 December 2020	362,934	362,934
At 1 January 2021 and 31 December 2021	362,934	362,934
<b>Accumulated depreciation</b>		
At 1 January 2020	14,916	14,916
Charge for the year	14,917	14,917
At 31 December 2020	29,833	29,833
At 1 January 2021	29,833	29,833
Charge for the year	14,917	14,917
At 31 December 2021	44,750	44,750
<b>Carrying amount</b>		
At 31 December 2021	318,184	318,184
At 31 December 2020	333,101	333,101

The Company leases several assets including land and facilities. The average lease term is 25 years (2020: 25 years).

Amounts recognised in profit and loss:	<b>Year ended 31 December 2021 £</b>	<b>Year ended 31 December 2020 £</b>
Depreciation expense on right-of-use assets	14,917	14,917
Interest expense on lease liabilities	13,589	14,707
Expense relating to variable lease payments not included in the measurement of the lease liability	75,540	72,750

Expenses relating to variable lease payments not included in the measurement of the lease liability pertain to the production site lease which contains variable lease payment terms that are linked to the amount of electricity generated during the period. Variable payment terms are used to link rental payments to the cash flows and reduce fixed cost. Overall the variable payments constitute up to 75% (2020: 82%) of the Company's entire lease payments. The Company expects this ratio to increase in future years. The variable payments depend on sales and consequently on the overall project and economic development over the next few years.

The total cash outflow for leases amount to £97,378 (2020: £96,165).

There are no extension or termination options on the leases.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**10 Leases (continued)**

**Lease liabilities**

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Lease liability £
At 1 January 2020	347,574
Accretion of interest (note 6)	14,707
Payments	(23,900)
At 31 December 2020	<u>338,381</u>
At 1 January 2021	338,381
Accretion of interest (note 6)	13,589
Payments	(23,900)
At 31 December 2021	<u>328,070</u>

**Maturity analysis**

A maturity analysis of lease liabilities based on undiscounted gross cash flows is reported in the table below:

	31 December 2021 £	31 December 2020 £
Year 1	23,900	23,900
Year 2	23,900	23,900
Year 3	23,900	23,900
Year 4	23,900	23,900
Year 5	23,900	23,900
Onwards	391,073	414,973
Total lease liabilities	<u>510,573</u>	<u>534,473</u>

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the holding company's treasury function. All lease obligations are denominated in pounds sterling.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**11 Deferred Tax Assets**

	31 December 2021	31 December 2020
	£	£
Brought forward	-	-
Income statement (debit)/credit	6,566,424	-
	<u>6,566,424</u>	<u>-</u>

The movement in deferred tax assets during the period is as follows:

	Accelerated capital allowances £	Losses and other deductions £	Other timing differences £	Deferred tax asset not recognised £	Total £
As at 1 January 2021	(15,517,288)	15,207,942	1,169,082	(859,736)	-
<b>Movements in the year</b>					
Income statement (debit)/credit	(16,998,558)	19,998,827	2,706,419	859,736	6,566,424
As at 31 December 2021	<u>(32,515,846)</u>	<u>35,206,769</u>	<u>3,875,501</u>	<u>-</u>	<u>6,566,424</u>

At 31 December 2020, there was a potential net deferred tax asset of £859,736 not recognised due to uncertainty at the comparative reporting date over the ability of the Company to utilise its trading losses and to benefit from disallowed interest which the Company is able to carry forward for a maximum of 5 years for offset against trading profits under certain circumstances. However, given that the company's windfarm was fully commissioned on 11 September 2021 and as a result of the achievement of this key milestone, the Directors of the Company now feel it appropriate to recognise the deferred tax asset based on anticipated windfarm performance.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**12 Trade and other receivables**

	31 December 2021	31 December 2020
	£	£
Accrued income	11,448,191	41,502
Prepayments	878,578	74,691
VAT recoverable	153,524	5,374,616
Other receivables	366,340	-
Amounts due from parent undertaking	423,823	388,823
Amounts due from fellow group undertakings	728,449	-
	<u>13,998,905</u>	<u>5,879,632</u>

Amounts due from parent undertaking in the current and previous year pertain to advances to Pilot Offshore Renewables Limited for cash flow purposes. The amounts have no fixed repayment terms, are not secured and are interest-free.

Amounts due from fellow group undertakings in the current year pertain to outstanding group relief payments due to the Company. Other receivables also relate to outstanding group relief payments although amounts due are in respect of entities who at the reporting date, were no longer fellow group undertakings. The amounts have no fixed repayment terms, are not secured and are interest-free.

Accrued income is mainly related to the Renewables Obligation (RO) scheme, under which the Company sells the Renewables Obligation Certificates (ROCs) issued by the Office of the Gas and Electricity Markets (Ofgem) relating to the amount of eligible renewable electricity the Company generated to its single customer in line with the contract. Any amount previously recognised as accrued income is reclassified to trade receivables at the point at which it is invoiced to the customer.

Payment for ROCs is due from the customer from four to twelve months after the renewable electricity is generated, and therefore accrued income is recognised on a monthly basis to represent the Company's right to consideration for the value of ROCs to which the company is entitled. The directors of the Company always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the energy industry. The directors have concluded the probability-weighted outcome is that any impairment would be immaterial.

**13 Cash and cash equivalents**

	31 December 2021	31 December 2020
	£	£
Cash at banks	<u>6,103,409</u>	<u>4,062,113</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.



**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**14 Loans and borrowings**

	<b>31 December 2021</b>	<b>31 December 2020</b>
	<b>£</b>	<b>£</b>
Bank loans	405,298,406	324,176,960
Loans from fellow group undertakings	20,745,731	657,938
	<u>426,044,137</u>	<u>324,834,898</u>

Included in the above amounts are interest costs of £1,910,846 (2020: £701,606).

**Analysis of loans and borrowings**

Borrowings are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	<b>31 December 2021</b>	<b>31 December 2020</b>
	<b>£</b>	<b>£</b>
Current liabilities	-	701,606
Non-current liabilities	426,044,137	324,133,292
	<u>426,044,137</u>	<u>324,834,898</u>

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**14 Loans and borrowings (continued)**

**Terms and repayment schedule**

The terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Date of maturity	31 December 2021		31 December 2020	
				Face value £	Carrying amount £	Face value £	Carrying amount £
Loan from fellow group undertakings 1	GBP	3.5% p.a.	30/01/2021	-	-	-	399,034
Loan from fellow group undertakings 2	GBP	3.5% p.a.	31/01/2022	-	-	-	258,904
Loan from fellow group undertakings 3	GBP	4% p.a.	12/06/2024	20,253,000	20,745,731	-	-
Syndicate Loan	GBP	LIBOR 3 months + 1.80%	13/06/2023	407,747,000	405,298,406	328,000,000	324,176,960
Total interest-bearing liabilities				428,000,000	426,044,137	328,000,000	324,834,898

On 12 June 2020, the Company signed the £380M Bridge Facility Agreement with various banks (Syndicate Loan). This Agreement specified that all the existing indebtedness should be fully settled with the first utilisation, which was received in the amount of £262.1m (net of £3.9m of set-up fees) on 17 June 2020. On 25 May 2021, the facility was increased to £408M. The loan is repayable in full on the termination date of 13 June 2023.

The loan from fellow group undertakings 1 was owed to Zero-E Currencies, S.L. Although the loan was settled on 23 June 2020, accrued interest of £399,034 was still outstanding at 31 December 2020. The outstanding interest was settled on 3 February 2021.

On 23 June 2020, the company signed the £30,000,000 credit agreement with Zero-E Currencies, S.L. (Loan from fellow group undertakings 2), which was utilised on 25 March 2020 and fully settled on 23 June 2020. Although fully settled, accrued interest of £258,904 was still outstanding at 31 December 2020. The outstanding interest was settled on 3 February 2021.

On 24 May 2021, the company signed the £20,253,000 credit agreement with Zero-E Currencies, S.L. (Loan from fellow group undertakings 3). The closing balance at 31 December 2021 is £20,745,731.

**Maturity profile**

The maturity profile of loans and borrowings is as follows:

	31 December 2021 £	31 December 2020 £
Not later than one year	-	701,606
Between one and five years	426,044,137	324,133,292
Total loans and borrowings outstanding	426,044,137	324,834,898

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**15 Reconciliation of loans and borrowings**

	Loans and borrowings £
<b>Balance at 1 January 2020</b>	192,360,921
Proceeds from bank loans	360,133,291
Loan repayments	(228,044,057)
Interest paid	(5,005,675)
Interest accrued	5,390,418
<b>Balance at 31 December 2020</b>	<u>324,834,898</u>
<b>Balance at 1 January 2021</b>	324,834,898
Proceeds from bank loans	100,000,000
Loan repayments	-
Interest paid	(8,010,265)
Interest accrued	9,219,504
<b>Balance at 31 December 2021</b>	<u><u>426,044,137</u></u>

**16 Trade and other payables**

	31 December 2021	31 December 2020
	£	£
Trade payables	1,214,418	325,051
Amounts due to fellow group undertakings	-	51,376,686
Accruals	175,189	198,714
	<u>1,389,607</u>	<u>51,900,451</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period on purchases is 30 days. No interest is paid on trade payables over 30 days. The directors consider that the carrying amount of trade payables approximates to their fair value.

Amounts due to fellow group undertakings for the preceding year pertain to amounts payable to Cobra Wind International Ltd. (see note 23 – Related party transactions). The amounts have no fixed repayment terms, are not secured and are interest-free.

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**17 Financial instruments**

	31 December 2021 £	31 December 2020 £
<b>Financial assets</b>		
<i>At amortised cost:</i>		
Cash and cash equivalents	6,103,409	4,062,113
Trade and other receivables (excluding prepayments and taxes)	12,966,803	430,325
	<u>19,070,212</u>	<u>4,492,438</u>
<b>Financial liabilities</b>		
<i>At amortised cost:</i>		
Loans and borrowings	426,044,137	324,834,898
Trade and other payables (excluding taxes)	1,389,607	51,900,451
	<u>427,433,744</u>	<u>376,735,349</u>

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost approximate their fair values.

**Changes in liabilities arising from financing activities**

	1 January 2021 £	Cash flows from financing activities Repayments £	New loans £	Non-cash changes Interest accrual £	31 December 2021 £
Bank loans	324,176,960	(7,352,327)	79,747,000	8,726,773	405,298,406
Loans from fellow group undertakings	657,938	(657,938)	20,253,000	492,731	20,745,731
Lease liabilities	338,381	(23,900)	-	13,589	328,070
	<u>325,173,279</u>	<u>(8,034,165)</u>	<u>100,000,000</u>	<u>9,233,093</u>	<u>426,372,207</u>

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**17 Financial instruments (continued)**

	1 January 2020	Cash flows from financing activities		Non-cash changes Interest accrual	31 December 2020
	£	Repayments £	New loans £	£	£
Borrowings	184,261,691	(225,608,440)	360,133,291	5,390,418	324,176,960
Loans from fellow group undertakings	8,099,230	(7,441,292)	-	-	657,938
Lease liabilities	347,574	(23,900)	-	14,707	338,381
	192,708,495	(233,073,632)	360,133,291	5,405,125	325,173,279

**18 Financial risk review and management**

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern;
- to provide an adequate return to shareholders;
- to support the Company's stability and growth;
- to provide capital for the purpose of strengthening the Company's risk management capability; and
- to provide capital for the purpose of further investments.

The capital structure of the Company consists of debt (interest-bearing borrowings) and equity (comprising issued capital and retained earnings). The Company is not subject to any externally imposed capital requirements.

The Company actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and to maximise equity holder returns, taking into consideration the future capital requirements of the Company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The management regards capital as total equity and reserves for capital management purposes.

**i) Risk management framework**

The Company's income is derived from the sale of electricity. Its business activities expose the Company to operational risk and financial risks such as market risk (including interest rate risk), credit risk and liquidity risk. The Company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. Financial assets include trade receivables, cash and short-term deposits.

The board is responsible for setting and monitoring the Company's exposure to risk and for the setting of appropriate policies, controls and parameters. The Company's objective is to have comprehensive and timely control and disclosure of risk measures and exposures. The evaluation of these risks is the responsibility of senior internal management. The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.

**ii) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices incorporate the following risks: interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

**KINCARDINE OFFSHORE WINDFARM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**18 Financial risk review and management (continued)**

The sensitivity analysis set out below relates to the positions held at 31 December 2020 and 31 December 2021 and has been prepared on the basis that the amount of the net debt, the ratio of fixed to floating interest rates and proportion of financial instruments in foreign currencies are all constant. Sensitivity analyses are based on historical data and cannot take account of the fact that future market price movements and levels of market liquidity in conditions of market stress may bear no relation to historical patterns and future market conditions could vary significantly.

**iii) a) Interest rate risk**

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's syndicate loan borrowings with floating interest rates.

The value of these securities may fluctuate over time as a result of a change in interest rates. The Company is also exposed to interest rate risk on cash and short-term deposit balances held with its banking providers. The table below summarises the Company's exposure to interest rate risk on financial assets and financial liabilities by the earlier of contractual maturities or re-pricing at each measurement date set out below:

	Interest rate	Maturity date	31 December 2021 £	31 December 2020 £
Interest-bearing borrowings:				
Syndicate Loan	LIBOR + 1.80%	13/06/2023	405,298,406	324,176,960
Loans from group undertakings	4%	12/06/2024	20,745,731	-

The following table demonstrates the sensitivity to a reasonably possible increase in interest rates:

	Increase in basis points	Effect on profit/(loss) before tax £
31 December 2021		
	100 basis points	(3,874,688)
31 December 2020		
	25 basis points	(538,967)

A decrease in interest rates would have resulted in an equal and opposite effect on the financial statements, assuming that all other variables remained constant. Based on historic movements and volatilities, and management's knowledge and experience of the financial markets, the increase in the interest rate above are considered reasonably possible over a 12-month period.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 18 Financial risk review and management (continued)

##### iii) b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company holds no underlying assets or liabilities in foreign currency at 31 December 2021 and does not carry out any operating activities in foreign currencies.

##### iv) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company and the risk that any debtors of the Company may default on amounts due to the Company. The Company has a policy of only dealing with creditworthy counterparties.

The Company does not have any trade receivables at the year end (2020: £nil). The value of amounts due from parent and fellow group entities at 31 December 2021 is £1,152,272 (2020: £388,823). In both cases, the Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. However, management also considers the factors that may influence the credit risk of its customer or counterparty base, including the default risk associated with the industry and country in which the customer or counterparty operates.

The Company has established a credit policy under which each new customer or counterparty is analysed individually for creditworthiness before the Company's standard payment and credit terms and conditions are offered. The Company's review includes external ratings, financial statements, credit agency information, industry information and in some cases bank references. Transaction limits are established for each customer or counterparty and regularly reviewed.

The Company allocates exposure to credit risk (and therefore expected credit losses) based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers or counterparties) and applying experienced credit judgement. Given the limited financial assets held by the Company at both 31 December 2021 and comparative dates, the directors have concluded that the probability-weighted outcome is that any impairment would be immaterial. Therefore, no impairment losses have been recognised.

The Company only transacts with counterparties that are regulated entities subject to prudential supervision. The credit risk on cash at bank is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. No collateral is held by the Company in respect of unrealised gains on financial instruments.

In the event of bankruptcy or insolvency of the bank, the Company's access to its cash and short-term deposits may be delayed or limited.

#### At 31 December 2021

Counterparty	Rating*	Total exposure (£)
Lloyds Banking Group PLC	A2	6,077,565
Bankinter, S.A.	A2	25,844

#### At 31 December 2020

Counterparty	Rating*	Total exposure (£)
Lloyds Banking Group PLC	A3	2,586,970
Bankinter, S.A.	A3	1,475,143

\* Ratings are based on Moody's long-term credit ratings for the bank.

The carrying amounts of financial assets represent the maximum credit exposure.

**KINCARDINE OFFSHORE WINDFARM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**18 Financial risk review and management (continued)**

**v) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities.

Liquidity risk arises from the repayment demands of the Company's lenders. The cash requirements of the Company are forecast by the board annually in advance until the final payment of the loan facilities. They are reviewed monthly by the management, ensuring the Company's ability to service the debt.

The Company is dependent on the loan facilities provided by various banks and would suffer financial loss should the loan facilities provided by the banks be recalled unexpectedly. The Company has met all the capital and interest instalments due on the loan facility to date.

The following tables set out the maturity profile of the Company's non-derivative financial liabilities, based on undiscounted contractual cash outflows, as at the following dates:

**At 31 December 2021**

	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Total
Liabilities	£	£	£	£	£
Trade and other payables	-	1,389,607	-	-	1,389,607
Loans and borrowings	-	-	-	426,044,137	426,044,137
<b>Total liabilities</b>	<b>-</b>	<b>1,389,607</b>	<b>-</b>	<b>426,044,137</b>	<b>427,433,744</b>

**At 31 December 2020**

	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Total
Liabilities	£	£	£	£	£
Trade and other payables	-	51,900,451	-	-	51,900,451
Loans and borrowings	442,702	-	-	324,392,196	324,834,898
<b>Total liabilities</b>	<b>442,702</b>	<b>51,900,451</b>	<b>-</b>	<b>324,392,196</b>	<b>376,735,349</b>

**vi) Offsetting financial assets and financial liabilities**

The Company has not presented any of its financial assets and financial liabilities on a net basis and no master-netting arrangements are in place.



**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

**19 Provisions for liabilities**

***Decommissioning***

The decommissioning provision outlined below relates to expected obligations associated with the Company's future windfarm decommissioning works. These obligations are imposed and defined by national and international legal requirements.

When calculating the net present value of the provision, the Company used an inflation rate of 2.30% and a nominal discount rate of 1.224%.

***Remedial works***

The remedial works provision outlined below relates to repairs required on one of the company's turbines following a technical fault which occurred before the reporting date.

Movements on provisions:

	<b>Remedial works £</b>	<b>Decommissioning £</b>	<b>Total £</b>
At 1 January 2021	-	-	-
Additional provisions in the year	12,954,852	4,052,987	17,007,839
Unwinding of discount (note 6)	-	8,268	8,268
At 31 December 2021	<u>12,954,852</u>	<u>4,061,255</u>	<u>17,016,107</u>
			<b>Aging analysis</b>
Within one year			12,954,852
After one year			4,061,255
			<u>17,016,107</u>

**20 Share capital**

	<b>31 December 2021</b>	<b>31 December 2020</b>
<b>Ordinary share capital</b>	<b>£</b>	<b>£</b>
<b><i>Authorised, issued and fully paid</i></b>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

**21 Retained deficit**

The retained deficit reflects the aggregate of all losses recognised through the income statement and statement of other operating income, throughout all periods up to the statement of financial position date.

**22 Capital commitments**

The Company was committed to incur further capital expenditure of £nil (2020: £44.656m) at the reporting date. The commitment in the comparative year related to committed costs in concluding the construction and development of its wind farm project.

# KINCARDINE OFFSHORE WINDFARM LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 23 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Company made the following related party purchases, which were capitalised in the current year, with companies in which its directors also hold directorships:

MacAskill Associates Limited	£36,000 (2020: £144,000)
Energisation Limited	£72,000 (2020: £180,000)

All transactions with related parties are considered to be entered at arm's length and on commercial terms.

During the year, construction services of £52,826,927 (2020: £200,206,388) were provided to the Company by Cobra Wind International Limited, a fellow group undertaking, under the terms of the EPC (Engineering, Procurement and Construction) contract and O&M (Operations and Management) contract for the wind farm project. At the year end, the Company owed £nil (2020: £51,376,686) to Cobra Wind International Limited in respect of these services.

During the year, the company finalised the surrender of tax losses to Cobra Wind International Limited and Road Management Services (A13) Plc resulting in £366,340 (2020: £nil) and £728,449 (2020: £nil) being owed by each entity respectively. The amounts owed remained outstanding at the reporting date (2020: £nil).

Purchases from Cobra Instalaciones y Servicios S.A. during the year totalled £119,879 (2020: £123,456). At 31 December 2021, the amount owed to Cobra Instalaciones y Servicios S.A in regards of these purchases was £nil (2020: £nil).

Purchases from Cobra Instalaciones y Servicios Internacional S.L. during the year totalled £3,960,000 (2020: £nil). At 31 December 2021, the amount owed to Cobra Instalaciones y Servicios Internacional S.L in regards of these purchases was £nil (2020: £nil).

At 31 December 2021, the amount owed to Zero-E Currencies, S.L. with regard to the loans and interest was £20,745,731 (note 14) (2020: £657,938).

At 31 December 2021, the amount owed from Pilot Offshore Renewables Limited with regard to the advances for cash flow purposes is £423,823 (2020: £388,823).

#### 24 Controlling party

The Company's immediate parent is Pilot Offshore Renewables Limited ("Pilot"). At the reporting date, ACS Servicios, Comunicaciones y Energía S.A. is the smallest group in which the results of the Company are consolidated and the financial statements of ACS Servicios, Comunicaciones y Energía S.A. are available from Calle Cardenal Marcelo Spínola 10, 28016 Madrid, Spain. On 1 August 2022, ACS Servicios, Comunicaciones y Energía S.A. was subject to a merger with Dragados S.A..

The Company's ultimate parent and controlling party is ACS, Actividades de Construcción y Servicios S.A. which is the largest group which prepares consolidated financial statements. The financial statements of ACS, Actividades de Construcción y Servicios S.A. can be obtained from: Avida, Pío XII, No. 102, 28036 Madrid, Spain or [www.groupacs.com](http://www.groupacs.com).

**KINCARDINE OFFSHORE WINDFARM LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**25 Subsequent events**

In July 2022, turbine KIN-02 experienced a technical issue. The directors expect this unit will resume operations in Q4 2022.